

REMARKS OF THE HONORABLE DONALD MANZULLO (IL-16TH)
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE

“CHINA’S TRADE AND INDUSTRIAL POLICIES”

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Chairman Levin and Ranking Member Camp, thank you for calling this hearing today.

As the senior Republican on the Asia Subcommittee of the House Foreign Affairs Committee and as the former Chairman of the U.S.-China Interparliamentary Exchange, I have been dealing with economic and other issues in the U.S.-China relationship for many years because of their importance to the northern Illinois district that I am proud to represent. Approximately one-quarter of the economic activity in Winnebago County is directly related to manufacturing – double the national average. Plus, the Rockford area is heavily reliant upon exporting – during my time in Congress, exports from the Rockford metropolitan area nearly tripled, going from \$522 million in 1993 to \$1.51 billion in 2008.

My first introduction into the complexity of China’s trade and industrial policies was shortly after I was first elected to Congress in 1993. A manufacturer of aftermarket motor vehicle equipment brought to my attention unfair imported Chinese dumping of brake drums and rotors sold in the U.S. at below-market prices. This eventually led to a decision by the U.S. International Trade Commission and the Department of Commerce to impose dumping duties on brake rotors that resulted in not only saving the firm but led to the expansion of their manufacturing operations in McHenry County. At the same time, a manufacturer of large machine tools was having a hard time selling product to China because of our complex export control system. In this case, we had willing buyers in China for U.S. products, but our own government put numerous hurdles to completing the sale. Thus, I have seen both sides of this debate.

Notwithstanding the challenge from China, the U.S. is still the world’s largest manufacturer. While exports from Illinois to the world dropped 23 percent between 2008 and 2009, exports from Illinois to China remained relatively constant at \$2.5 billion, helping to cushion the blow of the severe economic recession. This export level to China is more than double the amount just four years earlier (\$1.2 billion). China now represents Illinois’ third largest export market, ahead of Germany, Great Britain, and Japan. The leading Illinois export to China is machinery manufactures, representing \$508 million in exports. Next largest Illinois export is crop production (soybeans, corn, and wheat), that zoomed from a meager \$3.8 million in 2005 to \$406 million in 2009. The Commerce Department also recently honored Barker Rockford with the President’s E-award for exporting bicycle motocross (BMX) starting gates to over 40 countries in the world, including the equipment used in Beijing during the 2008 Summer Olympic Games.

However, I have no illusions about U.S.-China economic relationship. We still have significant challenges as evidenced by the annual report on trade barriers written by the Office of the U.S. Trade Representative and from observations on the ground by the American Chamber of Commerce in China, which I do not need to repeat here. But let me offer my top tier suggestions for reform.

First, we need to have China’s currency to freely float. I am a proud co-sponsor of the *Currency Reform for Fair Trade Act* (H.R. 2378) because a true free trade advocate would not stand for a foreign government undermining its currency in order to give an indirect export subsidy to its companies. Fred Bergsten of the Peterson Institute for International Economics wrote in the Washington Post last February that “correction of all the Asian undervaluations would cut the global U.S. deficit by about \$100 billion and generate at least 700,000

jobs.” I’ve heard story after story of local manufacturers going out of business primarily because they could not compete against Chinese imports that were being sold for less than the raw material costs in the United States. This mercantilist policy that gives China a 25 percent pricing edge cannot stand – or else, we’ll lose our status as the world’s #1 manufacturer.

Second, we need to be vigorous in enforcing our existing trade laws. I was pleased when the Bush Administration changed past policy to allow companies to file Countervailing Duty (CVD) trade cases against “non-market” economies such as China. One of the first beneficiaries of this decision was the Titan Tire plant in Freeport, Illinois in the case regarding New Pneumatic Off-The-Road Tires that resulted in the imposition of additional import duties of up to 6.59 percent to combat illegal Chinese government subsidization of their local tire industry. This is particularly important for China where there are still a significant number of state-owned enterprises (SOEs) that compete against American companies, which operate on free market principles. While rare, the Commerce Department should initiate unfair trade cases on behalf of small- and medium-sized enterprises (SMEs) that cannot afford the millions of dollars to successfully prosecute a trade case.

Third, we need to impress upon the Chinese that it is in their long-term interest, too, to protect intellectual property rights. A local manufacturer of environmental equipment had their designs stolen after submitting a bid to build a wastewater treatment plant for a municipality in China. The manufacturer contacted my office, and we became actively involved in helping the firm. We worked with the U.S. Embassy in Beijing, resulting in the Rockford company prevailing in the Chinese court system. But many other companies, particularly small firms that cannot afford legal representation in China, are not so fortunate. We need the U.S. government to be vigilant in stopping specific instances of intellectual property piracy.

Fourth, it is my opinion that the U.S. should not pursue allowing China to join the Government Procurement side agreement at the World Trade Organization (WTO). If we let China join, Chinese firms will swamp the U.S. government procurement marketplace, which could jeopardize our defense industrial base, and I would predict that very few U.S. firms would be successful in winning any Chinese government procurements.

Finally, there are some items that the U.S. government can do on its own to help deal with the challenges of selling in China. We need an aggressive and pro-active export promotion policy, particularly as it relates to China. A few years ago, when I visited a major electronics conglomerate in China (not located in Beijing or Shanghai), I spoke to the CEO about sourcing more from the United States. He responded, “I see Japanese and European government trade officials all the time but where are the Americans?” We need to provide more resources, particularly to SMEs, by increasing access to information about the exporting process, the Chinese marketplace, specific business opportunities, and critical trade finance. We also need comprehensive export control reform so that widely-available technology can be exported to China without weeks or months of delay. This also helps our national security by focusing the time our export compliance officers on stopping bad guys from accessing truly sensitive technologies.

Again, thank you, Mr. Chairman and Representative Camp for taking the time today to listen to my perspective.